Foreign Investment

Australia's policy on foreign investment is designed to make use of foreign capital, particularly when it is accompanied by new technology and expertise, as an integral part of Australian economic and social development. A major emphasis is placed on Australian participation in new projects without preventing projects that are clearly not against the national interest from proceeding.

The Australian Government considers it neither appropriate nor desirable to establish a specific Australian equity guideline for all sectors of the economy, nor to require majority Australian equity for new projects of businesses. There are specific guidelines for Australian participation in place for new natural resource projects. Certain proposals by foreign interests are subject to examination by the Foreign Investment Review Board (FIRB).

The Australian Government has recently taken a number of significant steps to deregulate foreign involvement in the financial sector. In June 1984, the Australian Treasury granted 40 new foreign exchange licences, and is presently considering applications for the establishment of full commercial banking operations for 6 to 12 foreign banks, including an application from the Royal Bank of Canada.

While Australian equity requirements of at least 50 per cent have been established for trading banks, on September 10, 1984, the Treasury Board announced a moratorium on existing foreign investment guidelines for merchant banks.

C. CHARACTERISTICS OF BILATERAL TRADE

Trends in Canada-Australia Trade

Canada's total trade with Australia amounted to $827.1 million in 1983 and $1.0 billion in 1984. This represented an increase over 1983 of $211.5 million. Since the mid-1970s, Canada has enjoyed a trade-surplus position with Australia. Canadian exports accounted for $657.8 million in 1984, for $468.7 million in 1983, and for $696.8 million in 1982.

In 1983, Australia slipped to 14th place among Canada's export customers, from 11th place in 1981 and 1982. Factors responsible for the decline included the Australian recession, the depreciation of the Australian dollar, import substitution (for example, a new Australian newsprint mill displaced some imports from Canada), and the reduction or elimination of some of the tariff preferences accorded Canada. By sector, the largest declines were in finished goods, such as automobile engines and parts, earth drilling equipment, tractors and computers. Sales of newsprint, cedar, fir and larch lumber, kraft pulp and potash also dropped off. (Refer to Appendix A for details.)

Reductions in the delivery of earth drilling machinery, motor vehicle parts (n.e.s.), wheel tractors, and carpets were major factors in the decline. Nineteen eighty-four figures are encouraging, reversing many of the 1983 losses and adding commodities that were not significant items in the past. (See Appendix A.)

Canadian exports to Australia differ significantly from the exports to most other countries in one way: manufactured goods account for a larger-than-average share of the total. In 1983, these goods represented 35.4 per cent of sales, and in 1982, 42 per cent. Australia usually ranks third, behind only the United States and the United Kingdom, as a market for Canadian finished goods.

Bilateral trade is governed by the General Agreement on Tariffs and Trade (GATT) and by the *Canada-Australia Trade Agreement* (CATA) of 1960. As the CATA provides for preferential tariffs on a number of products, it has enhanced the competitiveness of some Canadian manufactured goods in the Australian market. In 1980-81, 24 per cent of Canadian exports to Australia benefited from preferential tariff margins, but this proportion has declined to between 15 and 20 per cent as a result of a series of tariff decisions, including the revision, effective January 1, 1983, of the *Australian Customs Tariff Act*, which, *inter alia*, reduced the number of tariff items providing preferential margins for Canadian goods. The Canadian and Australian Governments have accepted the principle that the trade and economic relationship should be re-examined, and consultations have been underway for some time to determine the shape of future intergovernmental arrangements. Trade initiatives in Australia include the following:

(a) a review of *Canada's Export Market Report for Australia* in light of changing economic conditions and priorities;
(b) planning and implementation of an active trade fairs and missions program (approximately 25 events annually);
(c) the opening of a Consulate General in Perth, Western Australia, a state where 40 Canadian firms have established offices and 3,000 Canadians reside; and
(d) planned co-operation in the areas of defence production, fabricated metal products, and high-technology industries.

Investment Relations

While Canadian investment in Australia has been directed to many sectors and industries, the major area of Canadian interest has been in resource exploration and development, even though foreign investment in resources in Australia is closely regulated.

A major area of activity is in Western Australia, particularly in the Canning Basin. Despite the high costs of wildcat exploration in Australia, Australia has attractive fiscal and royalty arrangements in place.

Joint-venture relationships with Australian resource firms can also provide a solid competitive base for activities in the regional markets of the Pacific and Asia. Australia has certain advantages over other